The KPMG Difference

Transparency Report 2015

March 2016

kpmg.com.mt

Introducing the transparency report

The information contained in this Transparency Report is in accordance with the terms of the disclosure requirements of Section 18 of the Accountancy Profession Act (CAP, 281) relevant to audit firms which carry out statutory audits of public interest entities. This report provides clear information about our firm. We have not limited ourselves to the minimum disclosures required by law and have sought to provide ample explanations on how we are organised and managed and how we ensure quality across all our service lines with a particular focus on audit.

Hilary Galea-Lauri
Head of Audit – Technical & Quality Matters

David Caruana
Compliance Principal

We are committed to maintain the highest standards of quality, ethics and integrity in order to deliver value to stakeholders and to be consistently seen as the best firm. We aim to compete on quality by making clients and regulators aware of our continuing commitment to enhance audit quality to meet both international and local professional and ethical standards. Audit quality relies on our culture of integrity and on employing extraordinary people, supported by our methodologies and processes. We are committed to working closely with regulators, audit committees, investors and businesses to meet expectations of audit quality.

The starting point for the business is the professionalism and integrity of our people. Our leadership strives to promote a culture whereby quality is everyone's job. Our methodologies and processes, to which we refer to in this document, similarly reflect the drive for quality.

Unless otherwise stated, the information in this report reflects the position as at 30 March 2016. We invite you to read our Annual Review and to browse our web-site for further information relating to other aspects of our firm.

We trust this report provides a useful insight into how we manage our firm and uphold to the principles of quality and good corporate governance. We hope that this report creates an opportunity for feedback from our stakeholders and we would very much welcome your views as to how we can continue to improve the quality of the information presented herein in future years.

1.0 Our Structure & Governance

1.1 Legal structure

KPMG in Malta is affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are available in the supplement to the 2015 KPMG International Transparency Report.

KPMG in Malta is a civil partnership constituted under the laws of Malta and is registered as an audit firm with the Accountancy Board in terms of the Accountancy Profession Act (CAP. 281). The Compliance Principal in terms of the Accountancy Profession Act (CAP. 281) is David Caruana. KPMG in Malta operates from Portico Building, Marina Street, Pietà PTA 9044, Malta.

KPMG in Malta is wholly owned, and its voting rights are fully held by its partners all of whom are professionals actively involved in the provision of audit, tax and advisory services to the firm's clients.

KPMG in Malta has two wholly-owned subsidiaries, namely KPMG Holding Limited and KPMG Advisory Services Limited. Most services, including all audit services, are provided by KPMG. KPMG Holding Limited acts as the "paymaster" for the practice whilst KPMG Advisory Services Limited is licensed to provide recruitment services under the Employment and Training Services Act.

KPMG and its subsidiary undertakings in Malta are collectively referred to as KPMG in this report, unless the context clearly indicates otherwise. The contents of this report apply to the whole KPMG practice in Malta including that of its subsidiary undertakings.

There were 14 partners in KPMG in Malta as at 31December 2015.

1.2 Name and ownership

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

1.3 Governance

KPMG's governance structure as at the date of this report and as reflected in the Partnership Agreement is summarised in the figure below.

Governance Structure – Partnership Board

Executive Management Committee

Chair:
Senior Partner (& Head of Advisory)

Members:
Head of Audit – Operations
Head of Audit – Technical & quality matters
Head of Tax
Quality & Risk Partner
Head of Markets
Head of Finance
HR Partner

Quality and Risk Management Committee

Chair:
Quality & Risk Partner (Compliance Principal)

Members:
Senior Partner
Head of Audit – Technical & quality matters
Tax Partner
Director – Finance
Director – IT services
Compliance Executive (Committee secretary)

EMC Sub-Committees

HR Committee
Chair: HR Partner

Business Development Committee
Chair: Senior Partner

Audit Committee

Co-chair: Heads of Audit
Members: Audit partners & directors

Tax Committee

Chair: Head of Tax
Members: Tax partners & directors

Advisory Committee

Chair: Head of Advisory
Members: Advisory partners & directors

1.3 Governance

Partnership Board

The key governance and management body of KPMG is the Partnership Board which is made up of all the partners of KPMG. All the voting rights of the firm are held by the partners. The Partnership Board is responsible, amongst others, for setting the policies, direction and strategy of the firm as well as the appointment of partners and staff to carry out the managerial roles within the firm's governance structure. 11 partners' meetings were held during 2015.

Executive Management Committee

The Executive Management Committee (EMC) is responsible for formulating concrete proposals for the consideration of the partners' meeting on a variety of issues including the firm's vision and strategy, financial management, and human resources strategies and policies. It is also responsible for co-ordinating financial reporting and control, including working capital management on a day-to-day basis as well as co-ordinating the performance of the firm on a cross-functional basis. The EMC, which is chaired by the firm's senior partner, met 35 times during 2015.

Quality and Risk Management Committee

The principle role of the Quality and Risk Management Committee is to provide oversight of quality and risk management matters across the group. As part of its role it oversees that a culture of quality and integrity is maintained within the group and, where required, it will act as a sounding board to the Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programmes and the adequacy of proposed remedial actions. The Quality & Risk Management Committee met 3 times in 2015.

Functional partners' committees

The partners and directors working within each of the firm's three functions form part of a partners' committee for that function, chaired by the respective head of function. The objective of these committees is to ensure the effective management of each respective function within the firm.

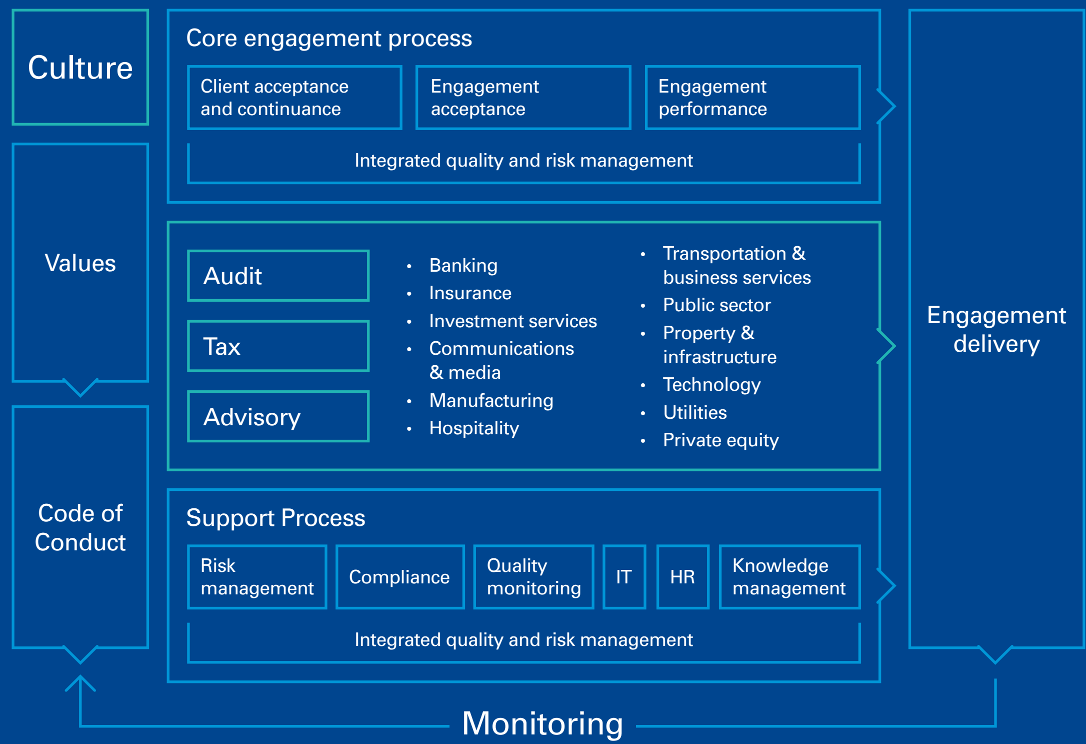
2.0 System of quality control

A robust and consistent system of quality control is an essential requirement in performing high quality services.

Accordingly, KPMG International has policies of quality control that apply to all member firms.

These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

These policies and procedures are based on the International Standard on Quality Control (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to firms that perform statutory audits and other assurance and related services engagements.



Our firm implements KPMG International policies and procedures. ISQC1 is mandated on us by local regulations. Though many of its provisions are strictly speaking only required for our audit practice, we have adopted its principles across all functions of our practice. To help ensure quality control, our operating model encompassing each of the key areas from ISQC1, is depicted below.

In addition to the standards required by ISQC1, we maintain systems of quality control for our audit practice that are designed to meet or exceed the expectations of audit committees (our clients) as well as the rules and standards issued by the Accountancy Board and other regulators.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities.

While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on what we do to enable the delivery of quality audits. In this section, we therefore focus on our system of audit quality control.

At KPMG, audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent and compliant with relevant legal and professional requirements.

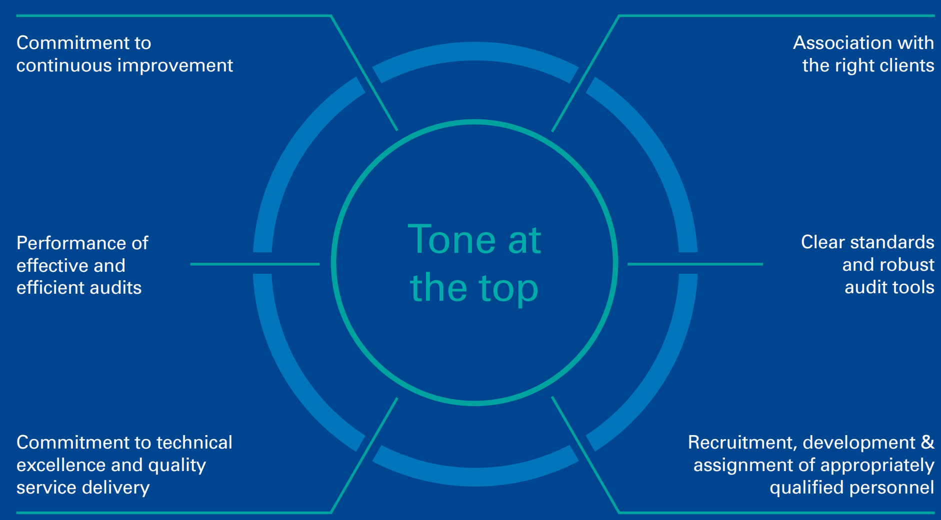
To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Our Framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Audit quality framework

Our Audit Quality Framework identifies seven drivers of audit quality:

- Tone at the top
- Association with the right clients
- Clear standards and robust audit tools
- Recruitment, development and assignment of appropriately qualified personnel
- Commitment to technical excellence and quality service delivery
- Performance of effective and efficient audits
- Commitment to continuous improvement

Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across our entire network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven key drivers is described in more detail in the following sections of this report.



2.1 Tone at the top

Tone at the top is a term used to describe an organisation's general ethical climate, as established by its leadership. KPMG and leadership use "tone at the top" to indicate its commitment to quality, ethics and integrity.

KPMG's focus on quality

KPMG's tone at the top provides a clear focus on quality through:

- culture, values, and code of conduct - clearly stated and demonstrated in the way we work
- focused and well-articulated strategy - incorporating quality at all levels
- standard set by our leadership
- governance structure and clear lines of responsibility for quality - skilled and experienced people in the right positions to influence the quality agenda.

2.1.1 Culture and values

At KPMG we are committed to doing the right thing in the right way for our people, our clients and other stakeholders including the capital markets we serve. To create this shared sense of identity, we have clearly stated values and a Code of Conduct (the "Code") against which an expected level of performance and behaviour is understood. The Code incorporates these core values and addresses the commitments that we make as well as the responsibilities of our personnel at all levels across our firm. We understand that trustworthiness is a critical characteristic that stakeholders expect and rely upon. It is this commitment that underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities. Any concern is considered and constructively reviewed, and appropriate action taken.

We communicate our values clearly to our people and living our values is so important to us that we embed these into our performance appraisals, and they are given specific consideration for senior promotions.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG core value – Above all, we act with Integrity. For us, integrity means constantly striving to uphold the highest professional standards in our work, providing sound advice to our clients, and rigorously maintaining our independence.

Setting the right tone is a key responsibility of our senior leadership team. The Senior Partner and all members of the leadership team are committed to building a culture based on quality and ethics. This is fundamental to the work we perform and the maintenance of our reputation.

We lead by example	At all levels we act in a way that exemplifies what we expect of each other and our clients
We work together	We bring out the best in each other and create strong and successful working relationships
We respect the individual	We respect people for who they are and for their knowledge, skills and experience as individuals and team members
We seek the facts and provide insight	By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers
We are open and honest in our communication	We share information, insight and advice frequently and constructively and manage tough situations with courage and candour
We are committed to our communities	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment
Above all, we act with integrity	We constantly strive to uphold the highest professional standards, provide sound advice and rigorously maintain our independence

2.1.2 Code of conduct

Our code of conduct is driven by our values. It defines the professional standards required from all of our people both in delivering professional services engagements and in their internal dealings at KPMG. The Code emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility.

The Code of Conduct points out that all of our people have to comply with the internal regulations on independence, impartiality, confidentiality, objectivity and professional ethics and that any breach of the independence regulations should be reported immediately. Partners and employees undertake annual ethics training on relevant Code of Conduct topics, and each year acknowledge that they agree to comply with the Code and confirm such compliance. We operate rigorous policies and procedures to ensure that our partners and employees are free from prohibited financial interests in, and relationships with, our audit clients, their management, directors and significant owners. Both these policies and procedures and the Code are included in the firm's quality and risk management manual which is refreshed at least once a year and, together with guidance notes, is readily available to all our people.

2.1.3 Whistle-blowing

Our policies provide that, anyone who has concerns about how others are behaving (either internally or externally) is required to raise the issue with their line manager or any partner. Anyone, at any time, is entitled to contact our Ethics and Independence Partner, David Caruana, with the assurance that their concern will be dealt with in confidence. We recognise that some people may feel uncomfortable reporting through the normal channels of communication within the firm or may consider that concerns they have expressed have not been dealt with effectively. We inform our people in our training, communications and on our intranet portal, that KPMG International maintains a hotline operated by a third party supplier. This hotline serves as a confidential reporting mechanism for any concerns about possible illegal, unethical, or improper conduct, in relation to certain areas of activity by KPMG International itself, those who work for KPMG International, or the senior leadership of a KPMG member firm. Matters can be raised anonymously without fear of retaliation. Matters reported to the hotline are investigated under the supervision of an independent ombudsman and are reported ultimately to the firm's Quality & Risk Management Committee. Such reporting covers matters reported to the hotline, how the investigations were conducted, findings from the investigations, and the implications for our policies and procedures.

2.1.4 Leadership responsibilities for quality and risk management

While we stress that all professionals are responsible for quality and risk management, the following entities and individuals have leadership responsibilities.

Senior partner

In accordance with the principles set out in ISQC1, our Senior Partner, Tonio Zarb, has assumed ultimate responsibility for KPMG's system of quality control. Details of some of the measures that he and the rest of the Partnership Board have taken to ensure that a culture of quality prevails within KPMG, are set out in this section of the report.

Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG has been delegated to the Risk Management Partner who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. He has a seat on the firm's Executive Management Committee, chairs the Quality and Risk Management Committee, and has a direct reporting line to the Senior Partner. This underlines the importance that the group places on risk and quality issues. The Risk Management Partner is supported, as appropriate, by partners and professionals in each of the functions.

The Audit, Tax and Advisory functions – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the senior partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

2.2 Association with the right clients

2.2.1 Acceptance and continuance of clients and engagements

The firm recognises that, rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services and to protect KPMG's reputation and support its brand. We have established policies and procedures for deciding whether to accept or continue a client relationship and whether to perform specific services for a particular client. This evaluation includes completion of a standard questionnaire that assesses the risk profile.

These evaluations include an assessment of a number of external factors that have the potential to impact on the quality of our audits such as the adequacy of the client's internal governance processes, the robustness of its financial systems and controls, the reputation of the client and the integrity of its owners. Where issues are noted, these should be appropriately considered as part of the audit planning process and where they are very significant these may affect our ongoing association with the client. For higher risk clients and engagements, approval is required from our Risk Management Partner.

2.2.2 Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and significant beneficial owners. A key focus is on the integrity of management of a prospective client and the evaluation considers, amongst other factors, breaches of law and regulation, anti-bribery and corruption and human rights. A second partner, as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to be 'high' risk the Risk Management Partner or his delegate is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, our global conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by the quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures including a review of any non-audit services provided to the client and of other relevant relationships.

Any potential independence or conflict of interest issues are documented and resolved prior to acceptance. Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks.

We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or there are other quality and risk issues that cannot be appropriately mitigated.

The Non-Audit Services and Conflicts of Interests sections provide more information on our independence and conflict checking policies.

2.2.3 Continuance process

An annual re-evaluation of all audit clients and audit engagements is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client where they are unable to deliver to our expected level of quality or if we have reason to believe that it would not be appropriate to continue to be associated with the client. More commonly, we use the re-evaluation to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this may include the assignment of additional professionals or the need to involve additional specialists on the audit).

2.2.4 Client portfolio management

Our leadership appoints engagement leaders that have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

The client portfolio of each engagement leader is regularly reviewed to ensure that they have sufficient time to manage the portfolio and that risks are being appropriately managed.

2.3 Clear standards and robust audit tools

Professional practice, risk management and quality control are the responsibilities of every KPMG professional. Our professionals are expected to understand, apply and adhere to KPMG policies and procedures (including independence policies) and are provided with a range of tools to support them in meeting these expectations. The policies and procedures we set for audit, incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

2.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Services Centre, is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in our audit manual, the KPMG Audit Manual International ("KAM") and includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality of our audits. KAM is made available to all audit professionals. Such methodology serves as the foundation of our financial statement audit. In addition to engagement, quality and risk matters, KAM also deals with the activities involved in, and standard documentation for, all aspects of our audit work.

Our audit methodology is supported by eAudIT, KPMG International's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits.

eAudIT's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders.

The key activities within the eAudIT workflow are:

Engagement setup

- perform engagement acceptance and scoping
- determine team selection and timetable

Risk assessment

- understand the entity
- identify and assess risks
- plan for involvement of KPMG specialists and external experts, internal audit, service organisations and other auditors as required
- evaluate design and implementation of relevant controls
- conduct risk assessment and planning discussion
- determine audit strategy and planned audit approach

Testing

- test operating effectiveness of selected controls
- plan and perform substantive procedures

Completion

- update risk assessment
- perform completion procedures, including overall review of financial statements
- perform overall evaluation, including evaluation of significant findings and issues
- communicate with those charged with governance (e.g. the audit committee)
- form the audit opinion

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages the use of specialists when appropriate and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory, and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual (GQ&RMM) that is applicable to all KPMG member firms, functions and personnel.

2.3.2 Independence, integrity, ethics and objectivity

2.3.2.1 Overview

Member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics together with those of other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extraterritorially). These policies are supplemented by other processes to ensure compliance with the standards issued by the Accountancy Board.

These policies and processes cover areas such as personal independence, business relationships, partner rotation, and approval of audit and non-audit services.

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm, and its personnel, must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors and significant owners.

KPMG in Malta has a designated Ethics and Independence Partner (EIP) supported by a core team of specialists to help ensure that we implement robust and consistent independence policies and procedures. Ethics and independence policies are set out on our intranet, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts and included in regular quality and risk communications.

2.3.2.2 Personal independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect to any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal, financial, business or family interests that are restricted for independence purposes. In common with other member firms of KPMG International we use a Web-based independence tracking system to assist professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and client-facing managers are required to use this system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies them if their investments subsequently become restricted. We monitor compliance with this requirement as part of our annual program of independence compliance audits of a sample of professionals. In 2015, 30 of our people were subject to these audits, this included approximately one third of our principals (partners and directors).

In accordance with KPMG International's rules, all partners are prohibited from owning securities with an audit client of any KPMG International member firm worldwide.

In addition, any professional providing services to an audit client is required to notify the EIP if they intend to enter into employment negotiations with that audit client.

2.3.2.3 Independence training and confirmations

We provide all relevant personnel with annual independence training appropriate to their grade and function and provide all new personnel with relevant training when they join.

All personnel are required to sign an independence confirmation upon joining the firm. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period, which confirmation is administered via an electronic system. This confirmation is used to evidence the individual's compliance with, and understanding of, our independence policies.

Engagement team members assigned to the audit of public interest entities are requested to declare their independence of the audit client immediately prior to the commencement of the audit engagement. In addition, the firm confirms annually its independence to the audit committees of public interest entities.

2.3.2.4 Audit partner rotation

Partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client. KPMG International rotation policies are consistent with IESBA Code of Ethics and require our firm to comply with any stricter applicable rotation requirements. We monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and have transition plans to enable and to allocate partners with the necessary competence and capability to deliver a consistent quality of service to clients. The process of monitoring and tracking service time and partner rotation is subject to compliance testing as part of the national quality performance review processes.

2.3.2.5 Non-audit services

We have policies and procedures as to the scope of services that can be provided to audit clients which are consistent with both IESBA principles and Directive 2, Code of Ethics for Warrant Holders issued in terms of the Accountancy Profession Act (cap. 281). KPMG International policies require the lead audit engagement partner to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

KPMG International's proprietary system, Sentinel™, facilitates compliance with these policies. Lead audit engagement partners are required to maintain group structures for their publicly traded as well as certain other audit clients and their affiliates in the system. Every engagement entered into by a KPMG member firm is required to be included in the system prior to starting work. The system enables lead audit engagement partners for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

In accordance with applicable auditor independence rules, none of our audit partners are compensated on their success in selling non-audit services to their audit clients.

2.3.2.6 Fee dependency

KPMG International's policies recognise that, self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion. In particular, KPMG International's policies require that, in the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, a senior partner from another operating firm would be appointed as the engagement quality control (EQC) reviewer. Also, this would be disclosed to those charged with governance at the audit client. No audit client accounted for more than 10 percent of the total fees received by our firm over the last two years.

2.3.2.7 Business relationships/suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable local independence requirements. Detailed guidance is maintained when covering, inter alia, business alliances and joint working arrangements, procurement relationships, and marketing and public affairs activities. Consultation is required in any case of uncertainty with the Risk Management Partner to ensure that no relationship is entered into with an audit client or its management, which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

2.3.2.8 Conflicts of interest

Conflicts of interest may prevent our firm from accepting or continuing an engagement. The Sentinel™ system is also used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network of member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between KPMG member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated. Any potential conflict matters that raise important points of principle for our firm are referred to the Risk Management Partner for resolution; in case of difficulty a panel of partners may be convened to resolve the matter.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

2.3.2.9 Breaches of Independence Policy

In the event of failure to comply with the firm's independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

2.3.2.10 Compliance with laws, regulations and anti-bribery and corruption

Compliance with laws, regulation and standards is a key aspect for all KPMG personnel. In particular, KPMG has zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery - even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

Accordingly, training covering compliance with laws (including those relating to anti-bribery and corruption), regulations and professional standards, and the KPMG Code of Conduct is required to be completed by client-facing professionals at least once every two years, with new recruits completing such training within three months of joining our firm. In addition, certain non-client-facing personnel who are at manager level and above are required to participate in anti-bribery training.

2.4 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring the successful recruitment, development and assignment of professionals with the skills and experience appropriate to the entity, subject to audit. We monitor quality incidents for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

2.4.1 Recruitment

At KPMG we aim to recruit well-rounded individuals with good communication, critical thinking and problem solving abilities combined with high technical competency and personal values consistent with the firm's values.

All candidates for professional positions submit résumés and application forms, and are interviewed. Certain information included in the candidates' application is also verified through independent sources. At interview stage personnel are informed of the general personal independence requirements that apply to all professional staff members.

Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding program, which includes training in areas such as ethics and independence, quality and risk management and IT security, in addition to any job-related modules. This also includes ensuring that any issues of independence or conflicts of interest are addressed before the individual can commence as a partner or employee with the firm. New joiners are asked to ascertain and confirm their independence and to identify any potential problems in this respect.

2.4.2 Personal development

It is important that all professionals, in addition to technical skills, have the necessary business and leadership abilities enabling them to perform to the highest professional standards and deliver high quality work. At KPMG we continually review and assess our people's capabilities and competences to perform engagements in accordance with professional standards, legal and regulatory requirements.

We provide opportunities for our people to develop the core competencies, skills, behaviours and personal qualities that form the foundations of a successful career. Courses for all staff levels to enhance personal effectiveness and develop technical, leadership and professional skills are provided by the firm on an ongoing basis. We further develop our personnel for high performance through coaching and mentoring on the job, complemented by opportunities to work on challenging engagements both in Malta and overseas through the global mobility program.

The firm requires its professionals to complete annual training on independence standards and the ethical standards embedded in the firm's Code of Conduct. We also ensure that our professionals stay abreast of technical updates by attending internal and external industry-specific training programmes and conferences as well as reviewing pertinent bulletins and periodicals. Quality is continually emphasised to our client service professionals through timely training and communication of accounting, auditing, and reporting matters. During 2015, our people's aggregate time on training, including on-the-job training, was of over 32000 hours.

2.4.3 Evaluation, Compensation and Promotion

Formal evaluation of performance is conducted and documented annually. All partners and staff have a suitably qualified performance manager assigned to them who is in a position to assess performance and propose a performance rating on the basis of their evaluation based on: (i) attainment of agreed-upon goals, (ii) demonstration of the KPMG skills and behaviours for their level, and (iii) technical capabilities and market knowledge. This is achieved through our global performance management process, which is supported by a web-based application.

Assessed skills and behaviours relating to quality include: quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning and relationship building. An individual's accountability in achieving quality is a core benchmark used to assess performance and progression within the firm. The result of their annual performance evaluation directly affects compensation of personnel and in some cases their continued association with the firm.

Our firm has compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our partners and employees know what is expected of them and what they can expect to receive in return. Partners are remunerated solely out of the profits of the whole firm and are personally responsible for funding pensions and other benefits. Audit partner remuneration setting takes no account of the level of non-audit services provided to the partner's audit clients.

2.4.4 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving various levels of assessment carried out both by the local firm and at a sub-regional level. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

2.4.5 Assignment of Personnel

Professionals are assigned to engagements based on a number of factors including their skill set, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience, accreditation and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, the complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving specialists from our own firm or other KPMG member firms.

The Senior Partner, in consultation with the Heads of Audit and the Risk Management Partner, is responsible for assigning engagement leaders and engagement quality control reviewers in the case of audit engagements for public interest entities and certain higher risk non-public interest audit clients. These assignments, together with the partner rotation plan, are reviewed periodically by the Quality and Risk Management Committee.

The need for any specialists (e.g. tax, valuation, etc.) to be assigned to a particular engagement is specifically considered as part of the engagement acceptance/continuance process as well as during engagement planning.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement leader's considerations may include the following:

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG's quality control policies and procedures

2.5 Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need. This includes access to networks of specialists and professional practice departments (DPP) which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time, we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

2.5.1 Professional training

In addition to personal development, discussed in section 2.4.2, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Learning and Development teams at the global, regional and local levels identify annual technical training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom. These teams work with subject experts and leaders to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis.

2.5.2 Accreditation and licensing

All KPMG professionals are required to comply with applicable professional license rules in the jurisdiction where they practice.

We are responsible for ensuring that professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have specific accreditation requirements for many of our services (including Transaction Services and Corporate Finance services) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

We require that all client service professionals maintain accreditation with their professional body and satisfy the continuing professional development requirements of the respective body and, where applicable, that they satisfy the Continuing Professional Education requirements of the Malta Institute of Accountants as holders of the warrant of Certified Public Accountant. Our policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed.

2.5.3 Access to specialist networks

Our engagement teams have access to a network of specialists both in the Malta practice and in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g. information technology, tax, valuation, treasury, pensions, forensic, actuarial) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

2.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is encouraged and, in certain circumstances, required to address difficult or contentious matters. Our firm provides appropriate consultation support to audit engagement professionals through professional practice resources that include a DPP and a Professional Practice Committee (PPC). The role of these resources is crucial in terms of the support that it provides to the Audit function. They provide technical guidance to client service professionals on specific engagement-related matters, develops and disseminates specific topic guidance on emerging local technical and professional issues, and disseminates international guidance on IFRS and ISA.

The firm has established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by the Risk Management Partner and/or Senior Partner.

Technical support is available to our firm through the International Standards Group (ISG) as well as the U.S. Capital Markets Group for work on SEC foreign registrants,

The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues, and develop global guidance on a timely basis.

2.5.5 Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries, global audit sector leads are appointed to support the development of relevant industry information to audit professionals. A key element of this industry information which is made available to audit professionals within eAudit. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as, a summary of the industry knowledge provided in eAudIT.

2.6 Performance of effective and efficient audits

2.6.1 KPMG Audit Process

As set out above, our audit workflow is enabled in eAudIT. The key behaviours that our auditors apply throughout the audit process to deliver high quality audits are:

- timely partner and manager involvement
- critical assessment of audit evidence
- exercise of professional judgment and professional skepticism
- ongoing mentoring and on the job coaching, supervision and review
- appropriately supported and documented conclusions
- if relevant, appropriate involvement of the EQC reviewer
- reporting
- insightful, open and honest two-way communication with those charged with governance
- client confidentiality, information security and data privacy

2.6.1.1 Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates.

The engagement leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement leader during the planning process and early in the audit process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement leader at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment, and significant risks.

The engagement leader is responsible for the final audit opinion and reviews key audit documentation – in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team.

2.6.1.2 Critical assessment of audit evidence with emphasis on professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgment and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Audit Quality Framework emphasizes the importance of maintaining an attitude of professional scepticism throughout the audit.

We have a professional judgment process that provides audit professionals with a structured approach to making judgments. Our professional judgement process has professional scepticism at its heart. It recognises the need to be alert to biases which may pose threats to good judgement, considers alternatives, critically assesses audit evidence by challenging management's assumptions and following up contradictory or inconsistent information and finally, documents rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

2.6.1.3 Ongoing mentoring and on the job coaching, supervision and review

We understand that skills develop over time and through exposure to different experiences. To invest in the development of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of our mission-driven strategy to enable personnel achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit involves:

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement
- helping engagement team members address any significant matters that arise during the audit, and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement

A key part of effective mentoring, coaching, and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

2.6.1.4 Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, understands:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs
- applicable legal and regulatory requirements
- the results of the procedures performed, and the audit evidence obtained
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained)
- the basis for the conclusions reached, and significant professional judgements made in reaching those conclusions

Our methodology recognises that, documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalised. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the audit report but may be more restrictive under certain applicable regulations.

We have a formal document retention policy in accordance with applicable laws and regulations that govern the period we retain audit documentation and other client-specific records.

2.6.1.5 Appropriate involvement of the EQC reviewer

Engagement Quality Control (EQC) reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgments made by the engagement team. They are experienced audit professionals who are independent of the engagement team. They provide an objective review of the more critical and judgmental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit. Before the date of the auditor's report, these individuals review:

- selected audit documentation and client communications
- the appropriateness of the financial statements and related disclosures
- the significant judgments the engagement team made and the conclusions it reached with respect to the audit

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC review plays in audits as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this, including:

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- incorporating specific procedures in eAudIT to facilitate effective reviews, and
- implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement

2.6.1.6 Reporting

Auditing standards and the requirements of the Companies Act (cap. 386) largely dictate the format and content of the audit report that includes an opinion on the fair presentation in all material respects. Experienced engagement partners arrive at all audit opinions based on the audit performed.

In preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support to audit partners through consultations with DPPs, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

2.6.1.7 Insightful, open and honest two-way communication

Two-way communication with those charged with governance is key to audit quality. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and ongoing discussions with members of the audit committee.

We deliver insights such as our assessment of the appropriateness of significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures, significant deficiencies in the design and operation of financial reporting systems, controls when such deficiencies come to our attention during the course of the audit, and any uncorrected misstatements. We share our industry experience to encourage discussion and debate with those charged with governance.

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our Audit Committee Institute ('ACI') aims to help Audit Committee members enhance their awareness, commitment and ability to implement effective Audit Committee processes. The ACI operates in 35 countries across the globe and provides Audit Committee members with authoritative guidance on matters of interest to Audit Committees as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

Globally the ACI has thousands of members across both the private and public sectors.

2.6.1.8 Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether they are KPMG member firms, as part of the engagement acceptance process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits.

Consistent approaches, methodology and tools are used across the KPMG network. We provide lead audit engagement partners with information on component auditors within the KPMG network to help them evaluate their competence and capabilities including, where appropriate, the results of relevant inspection results.

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

2.6.2 Client confidentiality, information security and data privacy

We take the issue of client confidentiality very seriously. The importance of maintaining confidentiality is continually emphasised through a variety of mechanisms included in our Code of Conduct, training and the annual affidavit/confirmation processes, that all professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation, and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security and the protection of confidential information which cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG personnel.

2.7 Commitment to continuous improvement

We focus on ensuring that our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand opportunities for continuous improvement.

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

2.7.1 Monitoring

2.7.1.1 Internal monitoring

KPMG International has an integrated monitoring programme that covers all member firms, to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures. The results and lessons from the programmes are communicated within each member firm, and the overall results and lessons from the programmes are considered and appropriate action taken at regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- compliance with KPMG International's policies and procedures
- the effectiveness of training and other professional development activities
- compliance with applicable laws and regulations and member firms' standards, policies, and procedures

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions, the Quality Performance Review (QPR) Program and the Risk Compliance Program (RCP).

Additionally, all member firms are covered by cross-functional Global Compliance Reviews (GCRs). These programs are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network.

Quality performance reviews (QPRs)

The international QPR Programme is the cornerstone of our efforts to monitor engagement quality and one of our primary means of ensuring that member firms are collectively and consistently meeting KPMG International's requirements and applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality. All engagement partners are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at firm level, generally overseen by an experienced senior lead reviewer independent from the member firm, and are monitored regionally and globally.

We perform a root cause analysis for pervasive issues. Remedial action plans for all significant deficiencies noted are required at an engagement and member firm level. We disseminate our findings from the QPR Program to our professionals through written communications, internal training tools, as well as periodic partner, manager and staff meetings. These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less than satisfactory engagement ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies / head offices are notified where a subsidiary/ affiliate of their client group is audited by a member firm, where significant quality issues have been identified during the Audit QPR.

Risk Compliance Programme ("RCP")

The RCP is a member firm's annual self-assessment programme. The objectives of the RCP are to monitor, assess, and document member firm-wide compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The programme is overseen and monitored regionally as well as globally.

Global Compliance Review (GCR) programs

GCRs are performed by reviewers independent of the member firm, who report to Global Quality & Risk Management and are led by the Global Compliance Group. GCRs are carried out on member firms once in a three-year cycle. These reviews focus on significant governance, risk management, independence and finance processes (including an assessment of the robustness of the firm's RCP). In the event that a GCR identifies issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

All three programmes require action plans to address identified issues, with timelines, to be developed by the member firm, and these actions to improve performance are followed up at the regional and global level to ensure that the actions address the identified issues with the objective of continuous improvement.

2.7.1.2 External monitoring

The Quality Assurance Oversight Committee forming part of the Accountancy Board within the Ministry of Finance, the Economy and Investment, performs quality reviews of audit practitioners in Malta. Our firm was reviewed in 2015. Though the final report has not yet been issued we understand that no issues were identified that have a material impact on the conduct of our statutory audit business. With respect to the previous quality review held in 2012, as per the final report issued in the first quarter of 2013, no issues were identified that have a material impact on the conduct of our statutory audit business.

2.7.1.3 Client feedback

In addition to internal and external monitoring of quality, we operate a formal program where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we receive from this program is formally considered centrally and by the individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

In addition we have procedures in place for addressing complaints relating to the quality of our work.

2.7.2 Interaction with regulators

At an international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level.

3.0 Network arrangements

3.1 Legal Structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

The structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to oblige or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to oblige or bind any member firm.

3.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and is able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status, as a KPMG member firm, and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

3.3 Professional Indemnity Insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

3.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Executive Team.

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the global chairman's appointment of the global deputy chairman and members of the Global Management Team.

The Global Board includes the global chairman, the global deputy chairman, the chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms. It is led by the global chairman who is supported by the Executive Committee, consisting of the global chairman, the global deputy chairman, the chairman of each of the regions and currently four other senior partners of member firms.

One of the other Global Board members is elected as the lead director by these Global Board members who are not also members of the Executive Team ("non-executive" members). A key role of the lead director is to act as liaison between the global chairman and the "non-executive" Global Board members. The list of Global Board members, as at 1 October 2015 is available in the International Annual Review.

The Global Board is supported in its oversight and governance responsibilities by several other committees, including a Governance Committee, an Operations Committee, Investments Committee, a Quality and Risk Management Committee, and a Professional Indemnity Insurance Committee. The lead director nominates the chairs and members of certain Global Board committees for approval by the Global Board.

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the global deputy chairman, and includes the global chairman, the global chief operations officer, global function and infrastructure heads and the general counsel. The list of Global Management Team members, as at 1 October 2015, is available in the International Annual Review.

The Global Steering Groups are responsible for supporting and driving the execution of the strategy and business plan in their respective areas and act under oversight of the Global Management Team. The role of the Global Quality & Risk Management Steering Group is outlined in more detail in the KPMG International Transparency Report.

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in implementation of KPMG International's policies and processes within the region.

3.5 Area Quality and Risk Management Leaders

KPMG International has a network of Area Quality and Risk Management Leaders (ARLs), reporting to the Global Vice Chair–Quality, Risk and Regulatory. The ARLs are members of the Global Quality and Risk Management Steering Group and each ARL performs a monitoring function over a group of member firms. Their role is to enhance the KPMG network's ability to proactively monitor quality and risk management across member firms.

4.0 Partner remuneration

4.1 Partners' profit share

Partners are remunerated solely out of the whole profits of the firm and are personally responsible for funding pensions and most other benefits.

There are three elements to partner remuneration:

- Base component – a proportion of the firm's budgeted profits are allocated to partners as base component. The amount of base component reflects the role and seniority of each partner
- Performance related remuneration – rewards performance in the year by each partner against individual objectives previously agreed
- Residual profit share – the residual profits are shared by the partners in accordance with the terms of the partnership agreement

There is transparency among partners over the total income allocated to each partner.

4.2 Drawings

During the year, partners receive monthly drawings (the amount being dependent on their level of base component) together with additional distributions of profits from time to time. The timing of the additional distributions of profits is dependent on the firm's working capital requirements.

4.3 Remuneration of directors

Directors are salaried employees of the firm and receive a fixed salary plus performance related bonuses.

5.0 Financial Information

5.1 Revenue

Fee revenue (including disbursements) earned by the firm for services provided in 2015 together with comparative numbers for 2014 are summarised in the table below.

2015 Revenue	2015		2014	
	€ 'million	%	€ 'million	%
Revenue from audit services	5.7	36.8%	5.2	35.4%
Revenue from tax and advisory services	9.8	63.2%	9.5	64.6%
	15.5	**100%**	**14.7**	**100%**

Total revenue for 2015 stands at €15.5million, representing an increase of 5.9% over 2014.

The audit revenue for 2015 is €5.7 million with an increase of 9.7% over the previous year. The 2015 Tax and Advisory revenue is at €9.8 million with an increase of 3.9% over the prior year. The 2015 tax and advisory revenue that originated from services provided to non-audit clients stands at 69.2%.

The total fees earned by the firm during 2015 from its largest audit client group is 3.1%.

Note that Revenue earned from the secondment of audit professionals to the audit function of other KPMG member firms are included as part of revenue from audit services. All other secondment revenue is included under the revenue from tax and advisory services.

Notes – List of PIE audit clients *Refers to table on page 37

(a) Based in Gibraltar operating a branch in Malta.

(b) Bank incorporated in the Netherlands operating a branch in Malta

(c) KPMG served as the statutory auditor of HSBC Bank Malta p.l.c. and HSBC Life Assurance (Malta) Ltd up to 22 April 2015

(d) The first audit report will be issued in 2016

(e) KPMG served as the statutory auditor of Mediterranean Bank p.l.c. and Mediterranean Corporate Bank Limited up to 29 July 2015

KPMG

6.0 Public Interest Entities (PIEs)

The definition of a PIE is that given by the Accountancy Profession Act (cap. 281). In accordance with this definition, public interest entities comprise (a) those entities whose transferable securities are admitted to trading on a regulated market of any Member State; (b) credit institutions; (c) insurance undertakings; and (d) any other entity as may be prescribed by the Accountancy Board (the Accountancy Board has to date not specified any such additional entities). In addition, the firm carries out audits for several other entities, which though not PIEs by definition, are nevertheless entities of significant public interest.

List of PIE audit clients

Name	Audit Report issued in 2015	Listed Equities	Listed Corporate Bonds	Listed Funds	Credit Institutions	Insurance Companies
ACL Fund SICAV p.l.c.	✓			✓		
Argus Insurance Company (Europe) Limited [a]	✓					✓
Bank of Valletta p.l.c.	✓	✓	✓		✓	
Bavaria Reinsurance Malta Ltd	✓					✓
Credit Europe Bank NV [b]	✓				✓	
Deutsche Bank (Malta) Ltd	✓				✓	
ECCM Bank p.l.c.	✓				✓	
European Insurance Solution PCC Limited	✓					✓
FIMBank p.l.c.	✓	✓			✓	
Grand Harbour Marina p.l.c.	✓	✓	✓			
HSBC Bank Malta p.l.c. [c]	✓	✓	✓		✓	
HSBC Life Assurance (Malta) Ltd [c]	✓					✓
Izola Bank p.l.c.	✓		✓		✓	
Liberty Global Insurance Company Limited	✓					✓
Mapfre Middlesea p.l.c. [d]		✓				✓
Mediterranean Bank p.l.c. [e]	✓		✓		✓	
Mediterranean Corporate Bank Limited [e]	✓				✓	
Medserv p.l.c.	✓	✓	✓			
MSV Life p.l.c. [d]						✓
Munich Re of Malta p.l.c.	✓					✓
Orlen Insurance Ltd	✓					✓
Pilatus Bank Limited	✓				✓	
Platinum Insurance Ltd	✓					✓
R&Q Insurance (Malta) Limited	✓					✓
RS2 Software p.l.c.	✓	✓				
Saint John's Insurance Ltd	✓					✓
Satabank p.l.c. [d]					✓	
St Julians Insurance Co Ltd	✓					✓

Appendix – Engagement Leaders

Engagement Leaders

Mark Bamber
Partner, Advisory Services

Mark is an advisory partner, leading the firm's Management Consulting advisory team. Mark has been a partner for 13 years.

Juanita Bencini
Partner, Advisory Services

Juanita heads the Risk Consulting advisory team in Malta and is also Head of Risk Consulting for KIG. Juanita is a council member of the Institute of Financial Services Practitioners. She has been a partner for 10 years.

Juanita Brockdorff
Partner, Tax Services

Juanita, a lawyer, is a partner in the tax function and focuses on international and European taxation. She is a council member of the Institute of Financial Services Practitioners.

David Caruana
Partner, Advisory Services
Risk Management Partner
Member of the EMC
Compliance Principal

David leads the firm's Deal Advisory and the Accounting Advisory Services teams. A partner for 13 years, he is the firm's Risk Management Partner. David is the Compliance Principal in terms of the Accountancy Profession Act (Cap. 281) as well as the firm's Money Laundering Reporting Officer (MLRO). David is also Head of Ethics & Independence for KIG.

Doreen Fenech
Partner, Tax Services

Doreen was appointed partner with effect from 1 January 2015. She has 17 years of experience in domestic and international tax.

Hilary Galea-Lauri
Head of Audit –
Technical and Quality Matters,
Member of the EMC

Hilary is an audit partner and the lead technical partner on IFRS and the KPMG audit methodology. Hilary heads the firm's Department of Professional Practice (DPP) and Professional Practice Committee (PPC). He sits on the Quality and Risk Committee, and has been a partner for 17 years.

Engagement Leaders

Noel Mizzi
Head of Audit – Operations
Member of the EMC

Noel is an audit partner specialising in financial services. He forms part of the firm's DPP and PPC Committee. He has been a partner for 17 years.

Eric Muscat
Partner, Advisory Services

Eric is the partner responsible for IT Advisory services. He has been a partner for 17 years.

Anthony Pace
Partner, Tax Services
Head of Finance
Member of the EMC

Anthony is a partner in the tax function, particularly specialising in indirect taxation. He has been a partner for 13 years.

David Pace
Partner, Advisory Services

David was appointed partner with effect from 1 January 2015 within the Deal Advisory team, which he joined in 2002. He is actively involved in assisting with business negotiations and has a lead role in the firm's Merger and Acquisition service offering.

Pierre Portelli
Partner, Tax Services
HR Partner
Member of the EMC

Pierre is a partner in the tax function and heads the corporate services team. He has been a partner of the firm for 19 years. Pierre is also the Firm's Human Resources Partner.

Giles Schembri
Partner, Audit Services

Giles is a partner in the audit department. Over the past 20 years he has principally practiced within the firm's audit function in Malta and in Milan. He forms part of the firm's PPC (area specialist).

André Zarb
Head of Tax Services
Member of the EMC

André assumed responsibility for the tax function in Malta in 1993, and became a partner in 1994. He Chairs the firm's Business development Committee.

Tonio Zarb
Senior Partner
Head of Advisory Services
Chairs EMC

Tonio was appointed as the firm's Senior Partner with effect from October 2012 and chairs the Executive Management Committee. He also leads the firm's advisory services function. He has been a partner for 27 years.

Raymond Azzopardi
Consultant

Raymond retired from the partnership on 31 December 2014, after 26 years' experience as an audit partner in the firm's financial services audit team.

Hermione Arciola
Director, Advisory Services

Hermione is a Director in the advisory function, focusing principally on corporate finance and transaction services. She joined the Deal Advisory team in 2007 and was appointed Director in January 2014.

Alex Azzopardi
Director, Advisory Services

Alex was appointed Director with effect from 1 January 2016. He currently leads the firm's provision of Internal Audit Services to a diversified portfolio of local and international clients. He is also involved in the provision of regulatory advisory services to a number of banking and insurance clients. Alex serves as secretary to the committee of the Malta Forum for Internal Auditors.

Giselle Borg
Director, Audit Services

Giselle was appointed Director with effect from 1 January 2016. She works in the audit department with an industry focus on pensions and insurance. She has led a variety of audit and assurance services for life insurers, non-life insurers, reinsurers and personal pension schemes and brings over 12 years of experience.

Engagement Leaders

Norbert Bugeja
Director, Audit Services

Norbert has been a Director in the audit department since 2010 specialising in financial services and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1989.

Sarah Camilleri
Director, Advisory Services

Sarah was appointed Director with effect from 1 January 2016. She drives the Investment Service and funds' offering across audit, tax and advisory within the firm. Sarah is also a committee member of the Malta Funds Industry Association and a member of the IFSP.

Jonathan Dingli
Director, Advisory Services

Jonathan was appointed Director with effect from 1 January 2015. He leads a team of professionals within the Accounting Advisory Services (AAS) Team at KPMG in Malta.

Claude Ellul
Director, Audit Services

Claude was appointed Director with effect from 1 January 2016. He joined the audit function in 2003. He is specialised in the financial services sector.

John Ellul Sullivan
Director, Tax Services

John was appointed Director with effect from 1 January 2015. John advises a variety of multinationals and high net worth individuals on their international corporate structures, as well as focuses on advising retirement scheme administrators on their operations in Malta. He has been employed with the firm since 2007.

Darren Govus
Director, Audit Services

Darren is a Director in the financial services audit department. He forms part of the firm's PPC (area specialist) and provides accounting training, particularly in relation to financial instruments. Darren has been with the firm for 20 years.

Jan Grech
Director, Advisory Services

Jan leads a team of multi-disciplinary advisory professionals within the Management Consulting practice. He first joined the firm in 1987.

Kevin Mifsud
Director, Audit Services
RMP / EIP Delegate

Kevin is a Director in the audit department, with expertise in financial services, telecommunications and software development and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1998. In 2015, Kevin was appointed designate to the firm's Risk Management Partner and Ethics and Independence Partner and is heavily involved in ensuring the firm's compliance with its risk management guidelines and policies.service offering.

Paul Pace Ross
Director, Tax Services

Paul was appointed Director with effect from 1 January 2015, forming part of the firm's Tax services. Over the years he led numerous cross-border engagements and he now leads a multi-disciplinary team of professionals advising clients on corporate restructuring, mergers, continuations, exit strategies and other reorganisation projects. He has been employed with the firm since 2002.

Mario J. Vella
Director, Advisory Services

Mario J. Vella is a Director forming part of the firm's Deal Advisory team. His main area of focus is leading the financing service line, which includes providing advice and assistance to corporate clients in structuring and arranging financing for their projects and operations. Mario joined the firm after a career spanning 44 years with one of Malta's leading banks.

Simon Xuereb
Director, Tax Services

Simon was appointed Director with effect from 1 January 2016. He has been actively involved in the ongoing development and broadcasting of KPMG in Malta's Private Client and Global Mobility Services offering and today leads a multi-disciplinary team of professionals. He is also actively involved in the development of this service offering at a global level and currently chairs the High-Net Worth Migration working group for KPMG.

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